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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 003673

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E.O. 12958: DECL: 11/04/2017  
TAGS: ECON EINV PREL PINR IZ  
SUBJECT: NINEWA'S NOT-SO-FREE TRADE ZONE

Classified By: Ninewa PRT Team Leader Jason Hyland: for reasons 1.4 (B) and (D)

¶1. This is a Ninewa Provincial Reconstruction Team (PRT) message.

Summary

¶2. (C) The Ninewa Free Trade Zone (FTZ) is anything but a free market. Originally conceived under the Saddam regime as a truck park to exchange imported food for exported fuel, encourage a market for high-value imported goods, and create a protected environment for factories, the decrepit FTZ, located north of Mosul in this northern province, now houses only three operating factories and two car dealerships. Total commercial activity - measured in sales as well as on-site factory production - was down 66 percent from a 2003 peak of USD 95 million to just USD 32 million in 2006, and FTZ Manager Saeed Sharif said it had only seen USD 21 million in activity this year.

The Zone is Still Active -- If Only a Little

¶3. (C) Sharif said no trucks have used the FTZ to exchange fuel, food or any other item since 2003. Meanwhile, he said only three factories are functional: a plastic chair factory operated by Syrian national Nazar Qadh, an alcohol factory operated by Tel Kaif native Amran LNU, and a building materials factory operated by a Mosul-based relative of Provincial Governor Duraid Kashmoula. Two FTZ car dealerships sell 2007 models of imported small passenger cars and mini-trucks, the only goods that make enough profit to overcome the hassle of using the zone. The zone also has an on-site generator, customs office, police station and branch of the Al Rafidein bank, which handles staff salaries and cell phone-based money transfers for customers.

Security, Fees and Bureaucracy Limit Zone's Activity

¶4. (C) Sharif blamed three factors for the FTZ slowdown:

- Security: Beyond the general security issues that restrict business activity and commercial movement in Ninewa, Sharif said the destruction by terrorists of the Badoush dam bridge over the Tigris this spring cut off the direct route between the FTZ and the Rabiyah Port of Entry on the Iraq-Syria border. Without a direct route to the FTZ, traders have calculated that the risk from transiting Mosul outweighs the benefit of bringing their goods to the zone, Sharif said. Nonetheless, he argued that the site of the zone itself is safe since it is co-located with a Kurdish checkpoint on the road to Dohuk.

- Lack of Authority: Sharif said he is unable to perform the normal functions expected of a free trade zone manager, such as conclusion of rental agreements with traders, invitations to local businesses and arbitration of internal disputes. He said each of these decisions is referred to a director general at the Ministry of Finance in Baghdad.

- High Fees: Importers receive no financial benefit from transacting their business through the FTZ, Sharif said. They could either pay a five percent customs Iraqi reconstruction levy at the Syrian border or pay the five percent reconstruction levy plus one percent for FTZ usage if they use the zone, he explained. He added that importers using a Kurdish port of entry have less incentive to use the zone, as they pay five percent to the Kurdish Regional Government (KRG) at the Iraqi border with Turkey plus the five percent Iraqi reconstruction duty and one percent FTZ usage fee.

¶ 15. (C) Sharif made several suggestions to improve the zone's operation:

- Greater delegation of authority to the FTZ manager to allow for local decisions on new businesses and factories.
- Lowering the Iraqi reconstruction fee from five to three percent to make the zone more attractive to traders.
- Facilitating capital movements through the zone, which lacks electronic bank transfers.
- A guarantee against nationalization of assets and businesses operating in the zone.

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Bio Notes

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¶ 16. (C) Saeed Sharif, who refers to himself as Dr. Saeed, is a native of the Nabi Younis neighborhood in Mosul's old city. His grandfather was the mufti of the Nabi Younis mosque. He worked in the Ministry of Trade, Ministry of Finance and Iraqi diplomatic service, where he served as commercial attache in Paris and Belgium. He speaks native Arabic, basic English and basic French. He has been director of the Free Trade Zone since 1999.

Comment

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¶ 17. (C) Ninewa needs a commercial zone that offers a supportive business environment, including security, a minimum of bureaucratic delays and access to both buyers and sellers. The current Ninewa FTZ on the outskirts of Mosul in an area shut off by security concerns from the Syrian border and by high KRG customs duties from the Turkish border does not seem to be the answer. The center's current business model also seems to lack any grounding in what the true function of a free trade zone should be. Nonetheless, the zone's fortuitous co-location with a police station on the margins of the relatively prosperous KRG and the traditional commercial center of Mosul offers the possibility that the FTZ could serve as a future point of exchange that fulfills the zone's original conception as a goods exchange point. Other locations closer to Mosul, however, offer possibly better connections to transportation, financing and utilities for a true free trade zone.

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